

# *News and Information*

*from the Tennessee Division of Consumer Affairs*

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## **TENNESSEE SETTLES WITH GENERAL ELECTRIC CREDIT, MONTGOMERY WARD CREDIT FOR UNLAWFUL COLLECTION PRACTICE ALLEGATIONS**

The Tennessee Attorney General's Office and the Tennessee Division of Consumer Affairs today joined 49 other states in an approximately \$97 million settlement agreement with General Electric Credit Corporation (GECC), which issues dozens of private label credit cards, together with Montgomery Ward Credit Corporation, for alleged unlawful debt collection practices from consumers who declared bankruptcy. The multistate group was led by the state attorneys general in Missouri and California.

The Tennessee settlement has been submitted for court approval. GECC and Montgomery Ward Credit will pay an estimated \$70 million to approximately 70,000 consumers nationwide from whom the firms collected invalid debts. In addition, the companies will pay the States Attorneys General \$24.5 million. Additionally, GECC will pay \$3 million into a consumer education trust fund established in a similar case filed last year against Sears.

Tennessee's total share including the estimated canceled debt and restitution is approximately \$400,000. The two companies will pay the State of Tennessee about \$110,000, which is the state's share of the nationwide payment based upon the percentage of violations that occurred in Tennessee. This amount will be used to cover attorneys' fees, consumer education and a large payment to the general fund.

GECC issues and administers private label credit cards for thousands of retailers, including Montgomery Ward. The states allege that GECC had solicited customers who filed Chapter 7 bankruptcy to sign a reaffirmation agreement (a contract agreeing to repay their debt rather than have it dismissed in bankruptcy).

The states also alleged GECC then failed to file those agreements with the Bankruptcy Court as required by law. Such agreements are valid only if they are voluntary and if they are filed, and in certain circumstances, approved by the bankruptcy court. The practice is believed to have taken place over the past four years.

"This settlement is another reminder to businesses that circumventing the bankruptcy laws to collect debts is unlawful," Tennessee Attorney General John Knox Walkup said. "We would encourage anyone who may have signed a reaffirmation agreement, which was not filed with the court, to contact the Division of Consumer Affairs."

Under the settlement, affected customers identified either by GECC (using a process overseen by the Attorneys General) or through a claims process, will:

1. Have all their "reaffirmed" debt stricken and GECC will waive any rights to repossess the

merchandise.

2. Be reimbursed or receive credit for finance charges and penalties charged by GECC, and be reimbursed for any money paid on the reaffirmed debt plus 10 percent interest.
3. Those potentially affected customers not identified by review of GECC's records will receive a notice and short questionnaire to determine eligibility, and will receive complete restitution if they signed a reaffirmation agreement that was not properly filed.

GECC and Montgomery Ward have also agreed to an injunction, which will prohibit them from collecting upon reaffirmation agreements that were not properly filed and to accurately disclose to their bankrupt customers their rights in connection with reaffirmation agreements proposed by the creditor.

The investigation into debt collection practices by GECC and Montgomery Ward Credit began shortly after the attorneys general settled a similar claim against Sears in 1997. The Sears settlement was the largest ever multistate consumer settlement in the country.

In the settlement filed today, GECC and Montgomery Ward Credit have denied any wrongdoing. The Attorney General and the Division of Consumer Affairs appreciate the cooperation of the companies in the investigation and settlement of this matter.

Consumers who filed for bankruptcy, signed a reaffirmation agreement with GECC, and believe the agreement may not have been filed properly with the bankruptcy court may contact the Tennessee Division of Consumer Affairs by writing to: Tennessee Division of Consumer Affairs, 500 James Robertson Parkway, 5th Floor, Nashville, TN, 37243-0600.